

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2021-153-S

IN RE: Application of Palmetto Wastewater) **REBUTTAL TESTIMONY**
Reclamation, Inc. for an Adjustment of)
Rates and) **OF**
)
) **CRAIG SORENSEN**

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Craig Sorensen, P.E. My principal place of business is 1710 Woodcreek
3 Farms Road, Elgin, South Carolina 29045.

4 Q. ARE YOU THE SAME CRAIG SORENSEN WHO PREVIOUSLY PROVIDED
5 DIRECT TESTIMONY IN THIS PROCEEDING?

6 A. Yes, I am.

7 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

8 A. The purpose of my rebuttal testimony is to address certain aspects of testimony filed
9 by David Garrett on behalf of the Office of Regulatory Staff (“ORS”) and Aaron
10 Rothschild on behalf of the Department of Consumer Affairs (“DCA”) relating to
11 Palmetto Wastewater Reclamation, Inc.’s (“PWR” or “Company”) requested return on
12 equity.

13 **Q. WHAT IS PWR'S REQUESTED RETURN ON EQUITY.**

14 A. PWR has requested a return on equity (“ROE”) of 10.95 percent, which is supported
15 by the testimony of PWR’s expert witness, Paul R. Moul.

1 **Q. WHAT ROE IS RECOMMENDED FOR PWR BY THE DCA AND ORS?**

2 A. In their respective direct testimonies, Mr. Garrett recommends an ROE of 8.90 percent
3 and Mr. Rothschild recommends an ROE of 7.31 percent.

4 **Q. WHAT ROEs HAVE MR. GARRETT AND MR. ROTHSCILD RECENTLY**
5 **RECOMMENDED FOR OTHER UTILITIES?**

6 A. The tables below show recent recommendations of Mr. Garrett and Mr. Rothschild for
7 other utilities.

Witness Garrett

<u>Utility</u>	<u>Date</u>	<u>State</u>	<u>Docket</u>	<u>Recommended ROE</u>	<u>Granted ROE</u>
ABACO Energy Services, LLC	1/25/2021	MT	2020.07.082	9.00%	n/a*
Washington Gas Light Company	11/20/2020	MD	9651	9.00%	9.70%
Utilities, Inc of Florida	11/13/2020	FL	20200139-WS	9.50%	9.75%
El Paso Electric Company	10/9/2020	NM	20-00104-UT	9.00%	9.00%
Peoples Gas System	8/31/2020	FL	20200051-GU	9.50%	9.90%
Rocky Mountain Power	8/7/2020	WY	20000-578-ER-20	9.00%	9.50%

*black box settlement in which no ROE was explicitly approved

Witness Rothschild

<u>Utility</u>	<u>Date</u>	<u>State</u>	<u>Docket</u>	<u>Recommended ROE</u>	<u>Granted ROE</u>
UGI Utilities, Inc. – Electric Division	21-May	PA	R-2021-3023618	**	**
Eversource and United Illuminating	21-Apr	CT	17-12-03RE11	**	**
Pennsylvania American Water Company	21-Feb	PA	P-2021-3022426	**	**
Montana-Dakota Utilities Co.	1/15/2021	ND	PU-20-379	8.09%	9.30%
Audubon Water Company	20-Nov	PA	R-2020-3020919	**	**
Dominion Energy South Carolina, Inc.	11/10/2020	SC	2020-125-E	8.63%	9.50%
Pennsylvania American Water Company (water)	20-Sep	PA	No. R-2020-3019369	8.00%	n/a*
Pennsylvania American Water Company (wastewater)	20-Sep	PA	No. R-2020-3019369	8.05%	n/a*
Palmetto Utilities, Inc.	5/26/2020	SC	2019-281-S	8.63%	9.07%

*black box settlement in which no ROE was explicitly approved

**PWR was unable to locate identified filing or testimony

1 **Q. WHAT ROEs HAVE MR. GARRETT AND MR. ROTHSCILD RECENTLY**
2 **RECOMMENDED FOR OTHER UTILITIES IN SOUTH CAROLINA?**

3 A. Based on the representative engagements listed for Mr. Garrett on the website of his
4 firm, he has not provided testimony regarding cost of capital in South Carolina.¹ Mr.
5 Rothschild appears to have provided cost-of-capital testimony in South Carolina
6 recently in general rate cases for Dominion Energy South Carolina, Inc. (Docket No.
7 2020-125-E), Palmetto Utilities, Inc. (Docket No. 2019-281-S), and Blue Granite

¹ <http://www.resolveuc.com/representative-engagements>

Water Company (Docket No. 2019-290-WS). In these three cases, Mr. Rothschild recommended ROEs of 8.63%, 8.63%, and 8.65%, respectively.

Q. WHAT ROEs HAVE RECENTLY BEEN GRANTED BY REGULATORY AUTHORITIES TO PWR AND ITS AFFILIATES, IN SOUTH CAROLINA AND OTHER JURISDICTIONS?

A. The table below shows ROEs granted to PWR and its affiliates recently by state regulatory agencies.

<u>ROE</u>	<u>Date</u>	<u>Docket</u>	<u>State</u>	<u>Utility</u>
9.00%	7/16/21*	50944	TX	Monarch Utilities I L.P.
7.85%-10.55%**	7/6/2021	20210006-WS	FL	Ni Florida, Inc.
9.50%	4/27/2021	UW 182	OR	Oregon Water Utilities - Cline Butte, Inc.
9.50%	4/26/2021	UW 183	OR	Oregon Water Utilities - Mountain Lakes, Inc.
9.07%	8/20/2020	2019-281-S	SC	South Carolina Water Utilities - PUI, Inc.
9.93%	5/14/2019	2018-82-S	SC	Palmetto Wastewater Reclamation, Inc.
9.25%	12/20/2018	A. 18-05-004	CA	Suburban Water Systems

*Unanimous settlement between all parties currently pending Commission approval

**ROE range set annually for all water and wastewater utilities with specific ROE within range dependent on capital structure; a capital structure of 50% equity (as recommended by ORS witness Garrett) would yield an ROE of 9.65%

Q. PLEASE EXPLAIN WHY THE ROEs ABOVE ARE RELEVANT TO THIS PROCEEDING.

A. Given the same level of risk, investors will invest their money where it can earn the highest return. PWR, like other utilities and companies, must compete to attract capital to operate, maintain, and improve its system. Mr. Garrett and Mr. Rothschild both claim their recommended ROEs represent the true market rate for equity. However, if the

1 Commission accepts either Mr. Garrett's or Mr. Rothschild's recommendations and
2 awards PWR a lower ROE than those granted in other jurisdictions, it will put PWR at
3 a distinct disadvantage in attracting the capital necessary to operate, maintain, and
4 improve its system, and will ultimately work to the disadvantage of its customers.

5 **Q. DO MR. GARRETT'S OR MR. ROTHSCCHILD'S RECOMMENDED ROEs**
6 **GIVE THE COMPANY AN OPPORTUNITY TO EARN A REASONABLE AND**
7 **FAIR RETURN ON ITS INVESTMENT AND ATTRACT THE CAPITAL**
8 **NECESSARY TO MAINTAIN AND IMPROVE THE SYSTEM?**

9 A. No. If the Commission accepts Mr. Garrett's or Mr. Rothschild's recommended ROEs,
10 it will neither allow PWR to earn a fair and reasonable return on its investment relative
11 to other regulated utilities, nor will PWR be able to attract capital.

12 **Q. PLEASE DESCRIBE PWR'S OPERATIONAL, ENVIRONMENTAL, AND**
13 **CUSTOMER SERVICE RECORD IN SOUTH CAROLINA.**

14 A. Since its acquisition by SouthWest Water Company ("SouthWest") in September 2020,
15 PWR has embraced and embodied SouthWest's mission and values. SouthWest Water
16 Company takes pride in providing safe and reliable water, wastewater services and
17 resource management for homes, businesses and communities nationwide. Our values
18 are: (1) job safety; (2) stewardship of the environment; (3) customer care; (4) employee
19 success; and (5) community citizenship. PWR's performance in each of these values is
20 discussed individually below.

- 21 • Safety - PWR has had zero Recordable or Lost Time Accidents since its
22 acquisition by SouthWest.

- 1 • Environmental Stewardship - PWR has improved its environmental impact
2 through the investment in its facilities of approximately \$2 million, which has
3 resulted in the closing out of two Notices of Violation (“NOV”) related to issues
4 that occurred prior to its acquisition by SouthWest.
- 5 • Customer Care – Customer service is a focal point of PWR. We have
6 implemented an organizational restructuring in which the Customer Service
7 leaders moved from reporting to the Accounting Department to reporting
8 directly to me as President. We hold regular scheduled and unscheduled
9 meetings to identify, address, and resolve potential customer service issues as
10 quickly as possible and discuss ways to continually improve the customer
11 experience. Our emphasis on customer service has paid off; so far this year,
12 PWR has received only two customer complaints, both of which were quickly
13 resolved, and only one of them came to us from ORS (related to disconnection
14 for nonpayment).
- 15 • Employee Success – Our employees are critical to our company and
16 customers. We want to grow and develop them and provide opportunities to
17 them along the way. We have an annual goal for every employee to log at least
18 14 hours in individual development training. This training results in better and
19 more satisfied employees over time, which improves productivity and reduces
20 costly turnover.
- 21 • Community Citizenship - As a utility owner/operator, we are inherently
22 immersed in our communities through our day-to-day work, but I believe we

1 hold a further responsibility to be active in our areas outside of work. Despite
2 COVID restrictions, our South Carolina employees have logged over 250
3 volunteer hours so far this year engaging in activities such as highway cleanups,
4 Habitat for Humanity homebuilding, and various causes important to them
5 individually. We are planning other charitable community events within the
6 coming weeks to support causes such as Meals on Wheels and the Leukemia
7 and Lymphoma Society.

8 **Q. GIVEN THE EXCEPTIONAL PERFORMANCE RECORD OF PWR, DOES IT**
9 **MAKE SENSE TO RECOMMEND A LOWER ROE THAN GRANTED TO**
10 **OTHER UTILITIES?**

11 A. No.

12 **Q. WHAT ROE WAS GRANTED TO PWR BY THE COMMISSION IN ITS LAST**
13 **RATE CASE?**

14 A. In its final order issued on May 14, 2019, the Commission approved an ROE of 9.93%
15 for PWR.

16 **Q. GIVEN THE EXCEPTIONAL PERFORMANCE RECORD OF PWR SINCE**
17 **ITS LAST RATE CASE, DOES IT MAKE SENSE TO RECOMMEND A**
18 **LOWER ROE THAN THAT GRANTED IN PWR'S LAST RATE CASE?**

19 A. No.

1 **Q. GIVEN THE TESTIMONIES OF MR. GARRETT AND MR. ROTHCHILD,**
2 **DOES PWR STILL BELIEVE ITS REQUEST FOR AN ROE OF 10.95**
3 **PERCENT IS REASONABLE, FAIR, AND APPROPRIATELY SUPPORTED?**

4 A. Yes. As supported in the testimony of expert witness Paul Moul, PWR's requested
5 ROE represents a fair return on equity. It would enable the company to attract capital
6 and reflect the company's exceptional performance record relative to other utilities.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes, it does.